

Soybean market outlook. . . Trade competition & economic reform in Argentina & Brazil. . . Ag conservation programs . . . China grain policy

Strong U.S. Soybean Demand Keeps Pace with Record Supply

Strong soybean demand is warding off burdensome surpluses, despite the large potential harvest this fall. U.S. soybean production is forecast at nearly 2.9 billion bushels, almost 100 million bushels above last year's record. Domestic levels of soybean crushing will be supported in 2001/02 by good prospects for soy product exports and favorable hog values that should expand domestic soymeal consumption. Robust soybean imports by China and the European Union have continued to support U.S. export demand. But record U.S. supplies and large foreign stocks (particularly in China and Brazil) are expected to limit price increases.

Argentina & Brazil Sharpen Their Competitive Edge

Argentina and Brazil have become increasingly strong competitors with the U.S. in grain and soybean trade. U.S. market share of global soybean and soybean product exports shrank from 80 percent during the 1960s to just 35 percent in 1998-2000. The combined Argentina-Brazil share grew from less than 10 to nearly 50 percent. With abundant land and favorable climates, Argentina and Brazil are naturally low-cost producers of soybeans. A primary catalyst in the surge in their agricultural production and exports in the past decade was the economic and political reform undertaken by both countries. These reforms opened the door to more open trade, strengthened market signals, expanded foreign investment, and increased utilization of ag inputs and technology.

Economic Reforms Remain Critical For Argentina & Brazil

Argentina's reforms in the early 1990s, despite initial successes, left many significant problems untouched. Excessive regulation and labor market problems still burden the economy, and the country is now in the midst of a 3-year recession. Argentina's government recently announced a package of policy measures, including a dual exchange-rate system that continues the one-*peso*-to-one-dollar arrangement



while providing an indirect devaluation for exporters. The plan could mean potential gains in Argentina's share of trade in global commodity markets, by lowering export prices. Of greater concern is the risk of a deeper recession and the possibility of a regional spillover of economic difficulties into Brazil and beyond.

New Tax Law Includes Savings For Farmers

The Economic Growth and Tax Relief Reconciliation Act of 2001, signed into law on June 7, 2001, reduces both income and estate taxes for most taxpayers, including most farmers. For farm sole proprietors, savings over the 10-year phase-in period total \$19 billion in Federal income taxes and \$3 billion in estate taxes.

China's Grain Policy at a Crossroads

China's grain sector and policymakers are adjusting to internal and external pressures that could reshape the industry. As consumers diversify their diets, they are demanding less grain but of higher quality. Government policymakers and the grain marketing system have been slow to respond to changing consumer preferences. As a result, large stocks of low-quality grain accumulated in the 1990s. Govern-

ment policy emphasis is now shifting from grain quantity to quality. China's accession to the World Trade Organization may introduce external competition for both farmers and grain traders that will hasten the shift.

Mandatory Price Reporting For the Livestock Industry

Livestock packers and importers whose operations exceed certain levels must now report frequent and detailed information to USDA on price, quantity, and characteristics of livestock they buy and sell. The purpose of USDA's Mandatory Price Reporting system is twofold: to provide all livestock producers with timely market information that will enable them to operate successfully in a changing marketing environment, while also meeting consumer demand for meat and meat products.

USDA Conservation Programs: A Look at the Record

Government spending on agricultural conservation programs has nearly tripled since the mid-1980s, responding to public demand that farm programs offset some of agriculture's environmental impacts. The greatest portion of spending has gone to support land retirement through the Conservation Reserve Program (CRP). This program has significantly reduced erosion and enlarged wildlife habitat. Recent USDA studies examine the CRP and other major conservation programs of the past 15 years and point to significant benefits.

Policymakers' interest in the Environmental Quality Incentives Program (EQIP) is linked to recognition that many environmental problems call for improved performance on working farmland rather than land retirement. EQIP provides technical, financial, and educational assistance to farmers who improve soil, land, water, and nutrient management on farmland. Applications to participate in the program have exceeded annual funding, but some farmers, after signing contracts, have opted to cancel out entirely or withdraw some of the practices specified in their conservation plans. This could have implications for program design and funding.